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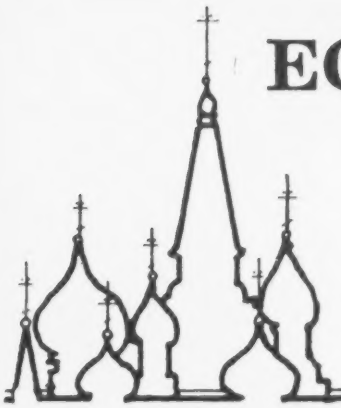

ECONOMIC NEWSLETTER

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Soviet Balance of Trade for the First Half of 1989

After omitting the balance of trade figures for the first quarter of 1989, the Soviets have now released figures for the first six months. They reflect continuing problems in the Soviet economy. While the Soviet Union has increased its trade surplus with Western Europe and Japan, its overall trade balance has suffered, largely as a result of a sharp increase in agricultural imports, particularly from the United States. Thus as the table indicates, the trade surplus with Western Europe and Japan rose to approximately 300 million rubles whereas last year at this time there was almost no surplus. At the same time, the overall trade deficit encompassing the grain exporting countries has risen to 2.3 billion rubles, the highest that it has been since 1981. This is caused in large part by a jump of 700 million rubles in imports from the United States. This makes the figure of imports from the United States for the first six months of 1989 the highest it has been.

Clearly, this complicates Gorbachev's economic difficulties. The Soviet Union has now begun to import more consumer goods, which presumably will lead to an increase in imports from Western Europe and Japan in the remainder of the year. Some of those imports may not show up in this particular table because many of the purchases are coming from Third World countries. There is every reason to believe, however, that because of the increase in the Soviet trade deficit the Soviet foreign debt this year will increase significantly.

ARDEN HOUSE 1990

The theme for the 1990 Arden House Conference on American-Soviet Relations will be "Gorbachev: The First Five Years." The conference is scheduled for April 6-8, 1990 and will be held at Arden House, the former country estate of Ambassador Averell Harriman.

Sponsored jointly by Harvard's Russian Research Center and the Harriman Institute of Columbia University, the Arden House conference is one of the premier conferences examining American-Soviet relations. Now in its fourteenth year, the conference attracts participants in the fields of business, govenment, education and research from throughout the world.

This year's conference panels are quite diverse and include: democratization, foreign policy, economic performance, joint ventures, ruble convertibility, congressional views, the waiver of Jackson-Vanik, and Eastern Europe. Confirmed panelists include Adam Ulam, Director of the Russian Research Center; Robert Legvold, Director of the Harriman Institute; Timothy J. Colton, Professor of Government, Harvard; Alexander Vershbow, Director, Office of Soviet Union Affairs, U.S. Department of State; Marshall Goldman, Associate Director of the Russian Research Center; Rick Ericson, Professor of Economics, Columbia; Congressman Les AuCoin; Dennis Kloske,

U.S. Under Secretary of Commerce for Export Administration; Ambassador Warren Zimmermann, U.S. Ambassador to Yugoslavia; and Ambassador Mark Palmer, U.S. Ambassador to Hungary.

The final conference program will not be available until January, but we have enclosed an application form for those who might want to register now in order to assure themselves a place at the conference.

Feodor Burlatsky Visits the Russian Research Center

Feodor Burlatsky, noted Soviet political scientist and member of the Congress of People's Deputies, visited the Russian Research Center on December 8, 1989. In a presentation given at the Center, Burlatsky commented on current events in the USSR.

He stressed that the role of Western sovietologists should not be underestimated, not only in analyzing the difficulties facing the Soviet Union, but also in assisting the Soviets in understanding and developing policies for addressing the challenges now facing the system.

Burlatsky pointed out the speed with which changes are being adopted in the Soviet Union. Events are quickly outpacing people's ability to understand them. There are many new questions to be addressed. Burlatsky personally does not like to use the word revolution to describe the changes now underway. As he pointed out, "We know how much our own revolution cost. Tens of millions of lives." He prefers the concept of structural reform, not revolution and recalled de Tocquville's comment, "A person who begins with reform must realize he may end up in revolution."

Gorbachev has begun to implement serious reforms, especially in light of the events underway now in Eastern Europe. The Eastern bloc is quickly moving toward what might be called revolution, in the social sense, particularly in terms of political culture and people's world views.

What has been achieved thus far? What remains to bed done? Initially *glasnost'*, the possibility to criticize, was the major achievement. Also important is the creation of new political insitutions, such as the parliament. There are deep changes in social opinions and attitudes and the face of society has begun to change. The USSR has moved past the period of stagnation. The bear has stood up on his hind legs. He is tettering, he is afraid of falling into an abyss – either the abyss of Brezhnevism or Stalinism or even the capitalist abyss. But he is standing. That is the main achievement to date.

Burlatsky then addressed the work of the Supreme Soviet. There are unique new possibilities about which members of the 20th Party Congress generation have dreamed for thirty years. Burlatsky has been preparing a draft law on human rights, and on exit and entry to the USSR. Shakhnazarov has worked on the draft law on freedom of the press. Draft laws on informal social organizations and freedom of conscience are also in the works. The draft reform of the legal system now includes discussion of the need for an impartial jury, legal representation from the beginning of the case, and fully independent judges. The draft law on emigration and free movement was drawn up by Shakhnazarov and supported well by the Congress. It is now possible to exert real influence on the changes underway in the legal and political system in the Soviet Union, something impossible to imagine only a year ago.

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SOVIET BALANCE OF TRADE: 1st Half of 1981 through 1989
(million rubles)

	Exports from the USSR									Imports to the USSR								
	1981	1982	1983	1984	1985	1986	1987	1988	1989	1981	1982	1983	1984	1985	1986	1987	1988	1989
Austria	392	346	271	381	370	286	169	238	203	258	251	380	481	403	437	312	359	441
Belgium	249	530	501	577	384	280	345	398	415	268	329	305	271	298	253	197	218	219
U.K.	349	416	502	691	549	591	674	782	1205	631	354	369	395	392	301	287	320	457
Greece	350	275	173	224	238	102	110	160	156	71	78	93	64	69	33	21	40	59
Denmark	74	199	157	153	132	69	47	53	74	151	42	42	51	51	100	46	62	55
Spain	156	77	148	163	299	37	187	288	308	323	101	148	152	102	107	89	82	99
Italy	1066	1362	1446	1503	1019	757	838	828	918	498	592	793	679	659	726	860	831	711
Nether.	430	715	895	727	402	290	387	337	485	344	217	314	132	158	126	140	146	184
Norway	28	37	30	50	56	29	26	31	44	58	34	53	46	39	46	28	38	54
Germany	1207	2059	1614	2314	1864	1588	1134	1253	1182	1586	1525	1893	1726	1680	1547	1417	1768	1900
France	1082	1168	1140	1238	990	751	689	732	719	922	727	973	907	1006	685	649	551	643
Switzld	90	181	257	187	182	161	164	152	217	291	224	211	196	283	270	303	470	513
Sweden	93	159	293	293	235	142	189	206	261	207	207	145	132	177	148	137	125	172
Japan	407	390	388	409	456	471	449	545	611	1168	1532	1237	1036	1245	1293	770	966	995
Subtotal	5973	7914	7815	8910	7176	5554	5408	6003	6798	6733	6213	6956	6268	6562	5965	5286	5976	6502
Sub-Balance of Trade										-760	+1701	+859	+2642	+614	-411	+122	+27	+296
USA	57	76	132	139	147	143	102	145	270	892	1672	878	1272	1764	845	411	1114	1806
Canada	28	14	19	9	8	6	8	9	20	489	554	651	388	408	266	275	261	246
Australia	8	6	3	6	11	5	5	6	8	381	411	278	312	402	410	217	189	379
NZ	2	3	1	3	2	2	2	4	8	96	166	108	31	51	63	50	50	87
Argentina	23	15	15	14	23	38	12	8	39	1060	840	798	727	769	126	225	181	340
Brazil	5	90	6	68	27	22	30	8	8	384	275	281	228	169	154	99	63	116
TOTAL	6096	8118	7991	9149	7394	5770	5567	6183	7151	10035	10131	9550	9226	10125	7829	6563	7834	9476
BALANCE OF TRADE										**-3939**	**-2013**	**-1959**	**-77**	**-2731**	**-2059**	**-996**	**-1651**	**-2325**
Finland						774	836	749	828						1082	1056	1138	1130
TOTAL (With Finland included)						6544	6403	6932	7979						8911	7619	8972	10606
BALANCE OF TRADE (With Finland included)															-2367	-1216	-2040	-2627

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Gorbachev's Dilemma

Pre-summit assessments indicate his sweeping changes are real But, in the Soviet Union, that notion isn't shared by everyone.

By Marshall I. Goldman

It hardly seems possible that it was only four years ago that Mikhail Gorbachev had his first summit with a U.S. president. In their November 1985 meeting in Geneva, Switzerland, President Ronald Reagan and General Secretary Mikhail Gorbachev met alone for 5½ hours and changed the course of history. And it was only two years earlier that Soviet negotiators had been ordered out of the Geneva arms talks in protest over the U.S. decision to install Pershing II missiles in Western Europe and to continue the development of the Strategic Defense Initiative.

In that pre-Gorbachev era, there were serious concerns about pre-emptive strikes, and each side had only nasty things to say about the other. The Reagan-Gorbachev meeting marked a sharp change in that atmosphere and became the first of what subsequently became a total of five such meetings between Mr. Reagan and Mr. Gorbachev, the most recent of which were not only warm and friendly, but also the occasion for the signing of meaningful arms control agreements.

As we prepare for the Dec. 2-3 summit, the first summit between President Gorbachev and President Bush (at least Mr. Bush's first summit as president), what should we as Americans make of Mr. Gorbachev and the "Gorby" phenomenon that among other things seems to have transformed most of Eastern Europe? Are these changes real, as those who promote Mr. Gorbachev for the Nobel Peace Prize insist? Or is it all a trick, as suggested by those who have been burnt too often by Soviet perfidy in the past?

Of course, no one knows for certain what makes Mr. Gorbachev go, and even if they did, events have been moving so fast that almost anything seems possible today, including changes that Mr. Gorbachev himself opposed only a few months ago. Moreover, the changes we have witnessed have not all led inexorably to a more liberalized environment. There have been steps backward, as when Soviet troops used gas to put down rioting in April in the republic of Georgia, and in Moldavia in November. Yet, it must be said that from Mr. Gorbachev's perspective at least, most of these changes in both domestic and foreign policy are intended to be real and long lasting. Not surprisingly, such a notion is not shared by everyone in the Soviet Union, but certainly this holds for Mr. Gorbachev.

Perhaps the best proof that Mr. Gorbachev is sincere is the fact that so much of what he has done, he did knowing full well that his change in course would cause him serious risk in terms of the opposition. Domestically his economic reforms, with their legalization of private and cooperative trade and the return of family farming, were bound to stir up those opposed to any move from the communist ideal that all property belongs to the state. There was equal opposition to the idea that these changes would bring about significant inequalities in income distribution. Similarly, Mr. Gorbachev's call for *glasnost* and democratization, with an open press and uninhibited discussion, was not only certain to unnerve party hard-liners, but it was bound sooner or later to lead to criticism of Mr. Gorbachev himself.

We also know that there are those in the Soviet Union who will oppose any effort by Mr. Gorbachev to improve U.S.-Soviet relations, especially if it leads to what Soviet conservatives might see as a relative weakening of the Soviet Union. Yet Mr. Gorbachev continues to tolerate the reordering of Soviet domestic and international relations. More than that, in the case of Poland, for example, Mr. Gorbachev has come to tolerate the existence of non-Communist parties and has even come to congratulate those parties when they take over control of the government, as in Poland and Hungary. He was more direct in the case of East Germany. There he actively nudged the party chief, Erich Honecker, out of office and supported the liberalization policies that ultimately led to the piercing of the Berlin Wall.

The changes in Soviet foreign policy have been equally spectacular. It took four years, but Mr. Gorbachev finally agreed to take Soviet troops out of Afghanistan. This was the first defeat for the Soviet army since World War II. It has not been easy for the Soviet military to accept its humiliation or for the Soviet people to hear their minister of foreign affairs, Eduard Shevardnadze, confess that the invasion was an immoral act. The comparisons with our behavior in Vietnam have been instructive.

In addition, the Soviet Union has announced the unilateral demobilization of 500,000 military personnel, the withdrawal of several thousand soldiers and tanks from Eastern Europe, and the shrinkage of support for many of its Third World clients, including Cuba and Nicaragua.

Also, the Soviets, along with the United States, already have destroyed a whole class of short- and medium-range missiles that previously threatened each other in Europe. On top of everything else, the Soviet Union's once secret nuclear missile plants have been open to inspection by U.S. military experts, and we have done the same for Soviet inspectors.

What is intriguing about all such measures is that they have indeed set off howls of protest from conservatives in the Soviet Union. Some have come out openly and criticized the Soviet leadership and Mr. Gorbachev for trying to convert the Soviet Union into a capitalist society. Others complain that the Soviet Union has made itself vulnerable to American military power and squandered the military superiority and missile strength that the Soviet Union had established before Mr. Gorbachev's rise to power. Some critics now openly lament the fact that the Soviet Union has even begun to give away its secrets and that U.S. military inspectors now have gained access to some of the most important military technology the Soviet Union has.

Why has Mr. Gorbachev done all these things? It probably is fair to say that some of these changes, including the defeat of some senior party officials in the elections for the Supreme Soviet, the ethnic rioting that has preoccupied Mr. Gorbachev for much of the last two years, and undoubtedly the talk of German reunification, were actions not welcomed by Mr. Gorbachev. These are the consequences of the dynamic set off by the more acceptable changes. Yet there is no doubt that such upheavals stir anxieties not only among Mr. Gorbachev's opponents, but occasionally within Mr. Gorbachev himself.

It is unlikely that Mr. Gorbachev is a true believer in democracy. At best he has been seeking a form of guided democracy that will help him implement the economic reforms that seem to be his No. 1 priority, without at the same time upending the primacy of the Communist party and the state control of industry. That explains Mr. Gorbachev's outspoken insistence that, unlike in Poland and Hungary, the Soviet Union will not countenance any party other than the Communist Party.

Similarly, he insists while the "Finlandization" or the neutralization of Eastern Europe may be tolerated, it is not acceptable if Soviet republics attempt to do the same thing. A similar attitude explains why, when criticized or shown that he has lost the confidence of the Soviet people, Mr. Gorbachev ordered the firing of the editor of the weekly paper *Argumenty i fakty*, which printed such critical surveys.

But most of what Mr. Gorbachev has done does make sense if indeed his main goal is *perestroika* or the economic reform of his country. Given that the Soviet Union was spending 14 percent or more of its gross national product on the military, there was no way the Soviet Union could allocate the money needed for economic reform and improve its standard of living as long as so much was being spent on the military.

Similar reasoning also explains Mr. Gorbachev's determination to withdraw from the Third World. Not only had the Soviet Union taken on the burden of what must have seemed like every basket case in the Third World (not only Afghanistan, but Angola, Cambodia, Cuba, Ethiopia, Nicaragua and Vietnam), but not one of these countries had a political system or human rights policy that was worth supporting. Whereas at one time it used to be that it was the United States that found itself defending corrupt and dictatorial regimes from some local insurgency, by the early 1980s, it was the Soviet Union that ended up in that posture.

Mr. Gorbachev's support for the changes in Eastern Europe may be a little hard to explain, but apparently he decided that just like the Soviet Union, the East Europeans would also have to undergo economic and political reform if they were to avoid economic collapse. The Soviet Union was no longer in a position to prop up these countries. Thus, they would have to reform or depend on themselves.

Because the so-called Brezhnev Doctrine had heretofore stood as a barrier to all meaningful changes, Mr. Gorbachev had to demonstrate that the Soviet Union would no longer stand in the way of East European reform. Given the pressures that were building up, Mr. Gorbachev seems to have understood that the only way to retain the East European alliance with the Soviet Union was to show flexibility. Rigidity was all but certain to cause a violent confrontation and ultimate split.

Similar reasoning may explain Mr. Gorbachev's support for opening the Berlin Wall. In the new political climate of 1989, the Berlin Wall no longer could hold in the East German population. Ironically, keeping East Germans inside East Germany was only possible if the wall was open. As soon as the East Germans knew they could leave, they decided they would stay.

No one knows whether Mr. Gorbachev will be able to sustain his reform program. It is clear that the conservatives in both Eastern Europe and the Soviet Union feel their backs are against the wall. Moreover, economic conditions in both the Soviet Union and the Eastern bloc are very serious. There are many who worry that a cold winter could precipitate hunger and perhaps rioting throughout the region. That, in turn, could set off a right-wing backlash or even a Tiananman Square-like reaction from Mr Gorbachev himself. This, of course, would mean the reversal of many of the policies that have caused so much excitement.

But for the time being, at least, the changes seem real enough and the Gorbachev that President Bush will meet off the coast of Malta will be a very different one from the leader President Reagan met four years ago. No longer do we have to worry whether Mr. Gorbachev is sincere; now the question is whether his reforms will succeed and whether Mr. Gorbachev will survive.